

Message Text

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ORIGIN TRSE-00

INFO OCT-01 NEA-10 ISO-00 FS-01 ABF-01 L-03 EB-07 AID-05

FRB-03 OMB-01 SS-15 SP-02 NSC-05 CIAE-00 INR-07

NSAE-00 IGA-01 AGR-05 INRE-00 NSCE-00 SSO-00 /067 R

DRAFTED BY TREAS:BCM/FCS:DACHIOD0/AATHIBAULT

APPROVED BY NEA/INS:DKUX

BF/FS/AB:DRWATKINS (INFO)

M/FRM/FM:RPWHITENER (INFO)

TREASURY:LBLOOM

BF/FS/AD/FC:BWGERMAN (INFO)

NEA/L:JROHWER

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O 132246Z JUN 75 ZFF4

FM SECSTATE WASHDC

TO AMEMBASSY COLOMBO NIACT IMMEDIATE

C O N F I D E N T I A L STATE 139257

E.O. 11652: GDS

TAGS: AFIN, CE

SUBJECT: U.S.-OWNED RUPEES IN INTEREST BEARING ACCOUNTS

REF: A) STATE 136722, B) COLOMBO 1676, 1835, 1862, 1868

BEGIN SUMMARY: IN WHICH WE HAVE FOUND AN ANSWER TO THE
RUPEE INTEREST BEARING ACCOUNTS PROBLEM: WE WERE RIGHT.
END SUMMARY.

1. YOU ARE AUTHORIZED TO INFORM JAYASINGHE THAT FOLLOWING
FULL REVIEW OF ISSUE OF USG-OWNED RUPEES IN INTEREST BEAR-
ING ACCOUNTS, INCLUDING CAREFUL ATTENTION TO SECRETARY
COOREY'S LETTER OF MAY 14, USG IS OF VIEW THAT IT HAS HAD
AND CONTINUES TO HAVE RIGHT, UNDER PARA. 4, PG. 7, OF 1966
P.L. 480 AGREEMENT, TO DEPOSIT FUNDS IN INTEREST BEARING
ACCOUNTS IN CEYLONese BANKS.

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2. OUR REVIEW INDICATES THAT IN JUNE 1966, AT URGING OF

GOC, USG SELECTED CEYLON TREASURY AS REPOSITORY FOR RUPEES OWNED BY USG AND GENERATED UNDER P.L. 480 AGREEMENT OF THAT YEAR AS WELL AS UNDER CERTAIN FUTURE AID PRIOR LOANS. THE USG DID SO BECAUSE (1) THE CEYLON TREASURY AGREED TO PAY INTEREST ON USG-OWNED DEPOSITS AND (2) SUCH ACTION HELPED EASE THE ECONOMIC SITUATION IN SIR LANKA AT THAT TIME. THE TERMS FOR USING THE CEYLON TREASURY WERE AGREED UPON IN THE EXCHANGE OF LETTERS BETWEEN THE USDO AND THE CEYLON

TREASURY IN JUNE 1966.

3, STATE AND TREASURY BELIEVE THAT THE EMBASSY CAN PROPERLY TAKE THE POSITION THAT THESE LETTERS DO NOT CONSTITUTE AN AGREEMENT TO LIMIT THE USG'S RIGHTS, UNDER PARA. 4, PG. 7 OF THE 1966 P.L. 480 AGREEMENT, TO DEPOSIT RUPEES IN INTEREST BEARING ACCOUNTS IN CEYLONESE BANKS. RATHER THESE LETTERS CONSTITUTE AN AGREEMENT ON OPERATING PROCEDURES, INCLUDING ESTABLISHMENT OF AN INTEREST RATE, TO BE FOLLOWED IN UTILIZING A PARTICULAR CEYLON BANK SELECTED BY THE USG, IN THIS CASE THE CEYLON TREASURY. THUS, THE USG DOES NOT CONSIDER THESE LETTERS AS CONSTITUTING AN AGREEMENT UNDER THE "UNLESS... MUTUALLY AGREED UPON" CLAUSE OF PARA. 4 OF THE 1966 P.L. 480 AGREEMENT, BUT SIMPLY A STATEMENT OF PROCEDURES TO BE USED IN IMPLEMENTING A CHOICE UNDER THE FIRST CLAUSE OF PARA. 4 ("... RUPEES RECEIVED... MAY BE DEPOSITED IN INTEREST-BEARING ACCOUNTS).

4. SUPPORTING THIS POSITION ARE THE FOLLOWING FACTS: (1) THE LETTERS DO NOT REFER TO THE PARA. 4 LANGUAGE NOR DO THEY RESTRICT THE USG TO USING THE CEYLON TREASURY SOLELY FOR THE INTEREST BEARING ACCOUNTS. NOWHERE IS IT SPECIFIED THAT ALL USG-OWNED RUPEES WOULD BE KEPT IN THE TREASURY ACCOUNT; (2) THE LETTERS WERE EXCHANGED BETWEEN THE USDO AND A TREASURY OFFICIAL. THE PROPER SIGNATORIES TO AN AGREEMENT BY THE USG AND THE GOC MODIFYING THE FIRST CLAUSE OF PARA. 4 WOULD HAVE BEEN THE AMBASSADOR AND THE CEYLON PERMANENT SECRETARY, THE SIGNATORIES OF THE P.L. 480 AGREEMENT; (3) THE EXCHANGE OF LETTERS COVERED THE DEPOSITS OF NOT ONLY P.L. 480 FUNDS, BUT ALSO

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DLF AND ICA FUNDS, THE BROADER SCOPE OF THIS LANGUAGE REFLECTING INTENTION NOT TO CONCLUDE AN "OTHER ARRANGEMENT" UNDER THE P.L. 480 AGREEMENT; AND (4) SINCE THE 1966 EXCHANGE OF LETTERS, AND BEFORE THE MOST RECENT RUPEE TRANSFER TO NATIONAL AND GRINDLAY'S, THE USG DEPOSITED FUNDS IN INTEREST BEARING ACCOUNTS IN OTHER CEYLONESE BANKS (SEE REF (A), PARA. 3 (U), (V), AND (W)). THESE DEPOSITS WERE SUPPLEMENTED BY TRANSFERS OF FUNDS FROM

THE TREASURY OF SRI LANKA (E.G. IN NOVEMBER 1971) AND WERE MOTIVATED IN PART BY WISH TO BENEFIT BY COMMERCIAL BANK INTEREST RATES. MOST RECENT TRANSFER TO NATIONAL AND GRINDLAY'S WAS FOLLOWING WELL-ESTABLISHED PRACTICE.

5. IF GSL PLACED A DIFFERENT INTERPRETATION ON THESE LETTERS, IT WAS NOT COMMUNICATED TO THE USG UNTIL THE RECENT TRANSFERS OF FUNDS TO NATIONAL AND GRINDLAY'S. FURTHER, EVEN IF THESE LETTERS COULD BE READ TO RESTRICT

THE USG TO INTEREST BEARING ACCOUNTS IN THE SRI LANKA TREASURY, THEY CANNOT BE READ TO BIND THE USG IN DIS- REGARD OF THE GREATLY CHANGED CIRCUMSTANCES SINCE THE LETTERS WERE SIGNED.

6. SUMMING UP, WE BELIEVE THAT THE RECORD IS CLEAR THAT THE USG IN NO WAY ACTED CONTRARY TO THE ARRANGEMENTS SPELLED OUT IN 1966 EXCHANGE OF LETTERS. STATED SIMPLY, WE HAVE NOT INTERPRETED IN RESTRICTIVE AND EXCLUSIONARY MANNER PROCEDURES ADOPTED IN 1966. FOR THESE REASONS WE ARE NOT OBLIGED TO KEEP ALL OF OUR SURPLUS RUPEES AT RATES PUNITIVELY LOWER THAN CURRENT COMMERCIAL RATES. IN VIEW OF THE DIFFICULTIES SECRETARY COOREY SET FORTH IN HIS MAY 14 LETTER, HOWEVER, WE WOULD BE PLEASED TO MAINTAIN SOME OF OUR FUNDS IN THE CEYLON TREASURY, OR IN OTHER GSL-CONTROLLED BANKING INSTITUTIONS IF OUR FUNDS WERE TO DRAW A REASONABLE RATE OF INTEREST.

7. DEPENDING ON CIRCUMSTANCES, YOU MAY WISH TO ADD THAT COMPROMISE SUGGESTED BY SECRETARY JAYASINGHE (I.E. SEVEN PER CENT INTEREST RATE TO BE OBTAINED FROM GSL-OWNED NATIONAL SAVINGS BANK) DURING HIS CONVERSATION OF MAY 26 WITH AMBASSADOR AND PRIME MINISTER OFFERS ASSURANCES THAT
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GSL SEEKS IN TERMS OF RETAINING CONTROL ON CREDIT EXPAN- SION WHILE PROVIDING USG WITH REASONABLE INTEREST RATE ON OUR ACCOUNT.

8. IN FACT, JAYASINGHE'S SUGGESTION HAS GREAT APPEAL HERE IF NO ADDITIONAL DIFFICULTIES ARE SEEN ATTACHING TO IT. VERY FACT THAT SUGGESTION OFFERED MAY INDICATE SOME UN- CERTAINTY ON GSL SIDE RE VALIDITY OF LINE TAKEN BY COOREY, ALTHOUGH WE RECOGNIZE THAT JAYASINGHE PERHAPS NOT AUTHORIZED SPOKESMAN ON THESE ISSUES.
FYI:

9. REGRETTABLY WE ARE UNABLE TO FORWARD PRE-1966 DEPOSIT AND WITHDRAWAL DATA ON P.L. 480 FUNDS AS REQUESTED. TREASURY INFORMS US THAT RECORDS ARE NOW IN STORAGE

CENTER AND THAT TO ARRANGE FOR WITHDRAWALS IS
PARTICULARLY DIFFICULT AND TIME-CONSUMING. WE WOULD
HOPE THAT INFORMATION PROVIDED TO DATE WOULD SATISFY
JAYASINGHE'S NEEDS. KISSINGER

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Disposition Authority: woolflhd
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